

16 February 2021

HKN Energy, Ltd.

HKN Energy, Ltd. ("HKN") presents an operating and financial update for the year ended 31 December 2020. HKN holds a 62% PSC interest in the Sarsang Block in northern Kurdistan.

Highlights

- Revenue during 2020 decreased 35% from 2019 due to a 39% reduction in realized oil price as compared to prior year, offset partially by a 6% increase in oil sales volumes.
 - HKN received cash proceeds from oil sales of \$117.2 million during 2020 with an additional \$15.9 million in cash received in January 2021.
 - In December, we received a letter from the KRG which outlined the mechanism they intend to use to pay outstanding receivables for oil sales from November 2019 - February 2020 (\$68.6 million net to HKN). The repayment mechanism includes offsetting liabilities owed to the KRG against the outstanding receivable and payments when Brent prices exceed \$50/bbl in any month with the incremental revenue shared 50-50 between the KRG and the Sarsang contractors. Incremental amounts are slated to begin with payment on the January 2021 invoice and liabilities totaling \$16.3 million (net to HKN) have been offset against the outstanding receivables as of 31 December 2020.
- Despite payment challenges and COVID restrictions, HKN safely maintained continuous production during 2020.
 - We exited the year with a record Sarsang production month of 30.8 thousand barrels per day in December. We achieved a new record in January 2021 averaging 31.5 thousand barrels per day.
 - Sarsang cumulative production reached 31.3 million barrels as of December 31.
- We achieved \$7.0 million net cash flow for 2020 despite reduced revenue, overdue receivables from the KRG, and higher interest costs. Several factors contributed to this result, including:
 - Material CAPEX reductions (~\$90 million or 55% below original 2020 guidance) starting in April
 - Over 20% reduction in OPEX, transportation and G&A costs per barrel compared to 2019; these efforts reduced our Brent break-even price to approximately \$23/barrel (excluding interest and hedging costs)
 - \$37.5 million in gross proceeds from the DFC loan
- Cash balance at 31 January 2021 of \$111.5 million, including restricted cash of \$7.0 million.
 - Balance includes the final drawdown in January of \$11.5 million from the DFC loan.

Summary of Results ⁽¹⁾

		2020	2019
Production (gross)	Bopd	24,659	23,324
Production (net) ⁽²⁾	Bopd	15,288	14,461
Revenue	USDm	\$ 122,813	\$ 189,913
EBITDA ⁽³⁾	USDm	\$ 65,457	\$ 121,789
Capex ⁽⁴⁾	USDm	\$ (71,419)	\$ (130,316)
Free cash flow ⁽⁵⁾	USDm	\$ (17,230)	\$ (42,851)
Cash at 31 December	USDm	\$ 83,309	\$ 83,071
Restricted Cash at 31 December	USDm	\$ 6,789	\$ -
Debt at 31 December ⁽⁶⁾	USDm	\$ 137,500	\$ 100,000

Notes:

- (1) HKN has opted to delay adoption of IFRS; 2020 financial reporting continued under US GAAP.
- (2) Net based on 62% PSC interest.
- (3) EBITDA is Net income/(loss) adjusted to add back interest, depletion, depreciation and amortization expenses and loss on derivatives.
- (4) Capex is shown on a cash basis.
- (5) Free Cash Flow is net cash generated from operating activities less cash outflow for capital expenditure. Free Cash Flow is before debt costs and dividends.
- (6) Face value of debt.

Outlook

- HKN reiterates previous guidance and expects 2021 production (gross) in the range of 27k-30k bopd.
- We continue to make progress on the new 25k bopd facility on Swara Tika. First oil from the facility is expected in Q2 2022.
 - Any delays in the supply chain due to continued COVID 19 impacts will extend the first oil date and could increase costs. We continue to closely monitor these impacts.
 - HKN is planning a restart of the drilling program required to fill the facility with first spud date in May 2021.
 - Tie in to the KRG export pipeline is expected to align with completion of the 25k bopd facility in Q2 2022.
- Tie-in of the Swara Tika A-1 well is planned for February. This is the 3rd well on the Swara Tika A pad and gives us sufficient well capacity to keep the 14k bopd production facility full for the next several years.
- We are revising our previous 2021 Capex guidance from \$75-\$100 million to \$100-\$125 million (net to HKN).
 - As in the past, 2021 Capex spending is predicated on oil price and ongoing payments from the KRG.
 - We have expanded our Capex guidance primarily to continue our 3D seismic acquisition and to extend our drilling program.
 - The seismic acquisition will allow us to further delineate future drilling locations across the Sarsang block.

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Disclaimer

This announcement contains certain forward-looking statements that are subject to the usual risk factors and uncertainties associated with the oil & gas exploration and production business. As the expectations reflected herein are believed to be reasonable in light of the information available to Company at this time, the actual outcome may be materially different due to factors beyond the Company's control or within the Company's control where, for example, the Company decides on a change of plan or strategy. For these reasons, no reliance may be placed on the figures contained in such forward looking statements.

EBITDA is a supplemental non-GAAP financial measure. We believe EBITDA and similar measures are useful to investors because they are frequently used by analysts and investors to evaluate companies in the oil and gas sector. Because these measures exclude some, but not all, items that affect net income, these measures as presented by us may not be comparable to similarly titled measures of other companies.

HKN ENERGY LTD.

Balance Sheets

December 31, 2020 and December 31, 2019

(Unaudited)

Assets	December 31, 2020	December 31, 2019
Current assets:		
Cash and cash equivalents	\$ 83,309,096	83,071,120
Restricted cash	6,789,125	—
Accounts receivable - current	63,453,480	110,593,880
Interest receivable	1,726	114,404
Prepaid expenses	358,125	1,215,616
Inventory	14,012,697	13,538,109
Related party receivable	74,677	33,713
Total current assets	167,998,926	208,566,842
Accounts receivable - long-term	27,900,000	—
Properties and equipment, at cost – full cost method:		
Evaluated properties, subject to depletion	632,011,048	568,131,513
Accumulated depletion	(181,460,610)	(121,989,261)
	450,550,438	446,142,252
Other property and equipment	8,412,086	7,114,311
Accumulated depreciation	(4,738,555)	(3,712,640)
	3,673,531	3,401,671
Total assets	\$ 650,122,895	658,110,765
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade and other payables	\$ 19,768,841	53,283,309
Accrued interest	3,804,896	3,483,333
Revenues payable	19,269,130	22,372,773
Total current liabilities	42,842,867	79,139,415
Long-term debt, net of debt issuance costs and fees	134,553,278	97,713,141
Future abandonment cost	6,316,024	4,628,978
Total liabilities	183,712,169	181,481,534
Common stock, \$0.01 par value 5,000,000 shares authorized,		
33,250 Class A shares issued and outstanding at December 31, 2020 and December 31, 2019, and	333	333
15,830 Class B shares issued and outstanding at December 31, 2020 and December 31, 2019	158	158
Additional paid-in capital	540,198,469	540,198,469
Accumulated deficit	(73,788,234)	(63,569,729)
Total shareholders' equity	466,410,726	476,629,231
Total liabilities and shareholders' equity	\$ 650,122,895	658,110,765

HKN ENERGY LTD.

Statements of Operations

Years ended December 31, 2020 and 2019

(Unaudited)

	<u>2020</u>	<u>2019</u>
Revenues:		
Oil sales	\$ 122,812,873	189,912,614
Total revenues	<u>122,812,873</u>	<u>189,912,614</u>
Expenses:		
Operating expenses	33,538,722	41,111,146
Oil transportation expenses	4,634,989	7,381,802
Depletion, depreciation and amortization	60,704,624	61,778,263
General and administrative	<u>19,117,439</u>	<u>19,504,799</u>
Total expenses	<u>117,995,774</u>	<u>129,776,010</u>
Operating income	<u>4,817,099</u>	<u>60,136,604</u>
Other expenses:		
Interest expense, net	(13,017,685)	(7,417,944)
Realized loss on derivatives	(1,953,000)	—
Other expenses	<u>(64,919)</u>	<u>(126,008)</u>
Total other expense	<u>(15,035,604)</u>	<u>(7,543,952)</u>
Net income (loss)	<u>\$ (10,218,505)</u>	<u>52,592,652</u>

HKN ENERGY LTD.

Statement of Shareholders' Equity

Years ended December 31, 2020 and 2019

(Unaudited)

	Common stock		Additional paid-in capital	Accumulated deficit	Total
	Shares	Amounts			
Balance – January 1, 2019	49,080	\$ 491	540,198,469	(116,162,381)	424,036,579
Net income allocated to Class A shareholders	—	—	—	35,629,701	35,629,701
Net income allocated to Class B shareholders	—	—	—	16,962,951	16,962,951
Balance – December 31, 2019	49,080	\$ 491	540,198,469	(63,569,729)	476,629,231
Balance – January 1, 2020	49,080	\$ 491	540,198,469	(63,569,729)	476,629,231
Net loss allocated to Class A shareholders	—	—	—	(6,922,683)	(6,922,683)
Net loss allocated to Class B shareholders	—	—	—	(3,295,822)	(3,295,822)
Balance – December 31, 2020	49,080	\$ 491	540,198,469	(73,788,234)	466,410,726

HKN ENERGY LTD.

Statements of Cash Flows

Years ended December 31, 2020 and 2019

(Unaudited)

	<u>2020</u>	<u>2019</u>
Operating activities:		
Net income (loss)	\$ (10,218,505)	52,592,652
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	60,704,624	61,778,263
Amortization of debt issuance costs and fees	773,020	457,371
Derivative loss	1,953,000	—
Cash paid for commodity derivatives	(1,953,000)	—
Change in operating assets and liabilities:		
Accounts receivable	(1,746,936)	(47,431,291)
Interest receivable	112,678	(114,404)
Related party accounts	(40,964)	(6,462)
Prepaid expenses	857,491	(525,138)
Accounts payable and accrued expenses	(3,433,831)	3,597,894
Accrued interest	321,563	3,483,333
Revenues payable	(3,103,643)	9,509,216
Transportation payable	(1,836,659)	74,249
Net cash provided by operating activities	<u>42,388,838</u>	<u>83,415,683</u>
Investing activities:		
Development of oil and gas properties	(70,224,590)	(127,779,106)
Purchases of other property and equipment	(1,194,264)	(2,536,575)
Net cash used in investing activities	<u>(71,418,854)</u>	<u>(130,315,681)</u>
Financing activities:		
Proceeds from issuance of debt, net of fees	37,059,000	97,500,000
Debt issuance costs	(991,883)	(244,230)
Net cash provided by financing activities	<u>36,067,117</u>	<u>97,255,770</u>
Increase in cash and restricted cash	7,037,101	50,355,772
Cash and restricted cash – beginning of period	<u>83,071,120</u>	<u>32,715,348</u>
Cash and restricted cash – end of period	\$ <u><u>90,108,221</u></u>	\$ <u><u>83,071,120</u></u>
Cash paid for interest	\$ 12,204,681	5,500,000
Noncash capital expenditures in liabilities at period end	\$ 5,643,581	24,902,035